



# **Competitive Acquisition of Natural Gas and Electricity**

Defense Energy Support Center

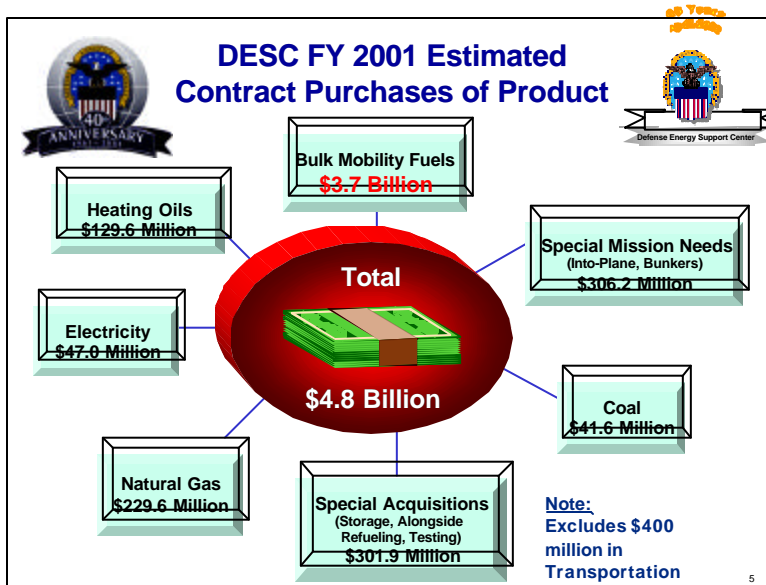
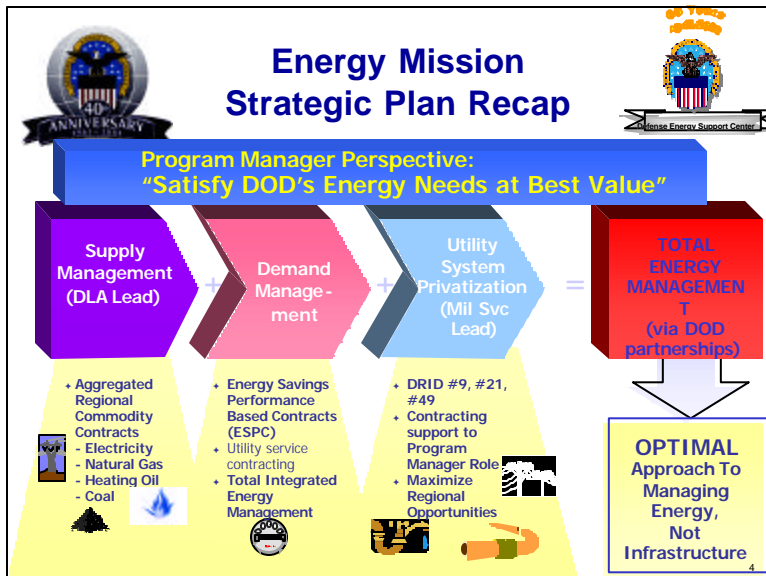
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## **Briefing Outline**

- Managing DoD's Energy Bill
- DoD Natural Gas Program
- DESC's Electricity Program





## DESC Natural Gas Mission



- DoD program established - 1990
- Provide quality service and support
- Lower installation's energy costs
  - Save money while maintaining supply reliability
  - Provide competitive procurement –CICA
- Aggregate geographic demand, manage supply, procurement, and transportation for natural gas customers



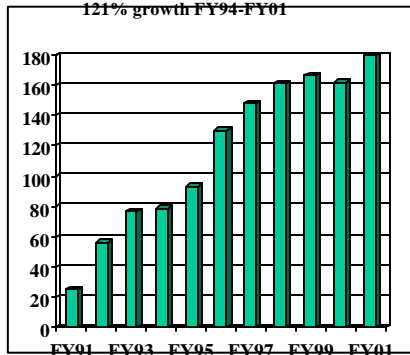
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## Department of Defense NATURAL GAS PARTICIPATION & COST AVOIDANCE



DoD Participation  
121% growth FY94-FY01



DoD Natural Gas Cost Avoidance

Total	FY 01	FY91-00
Army	\$236.3	\$
Navy	\$7.95	(\$3)
Air Force	\$58.8	\$2.7
Other DoD	\$107	\$7.1
Total	\$93.5	\$13.9
	222.4	

Army	68
Navy	54
Air Force	44
DoD	14
Total	180

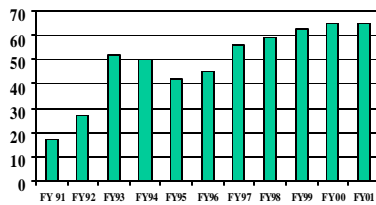
FY 01 DoD Participation	180
Total	180



## Federal Civilian Agencies



### HISTORICAL PARTICIPATION



SOURCE: INSTALLATION ENERGY COMMODITY BUSINESS UNIT

FY01 Federal Civilian Agency Participants	
DOE	16
Veterans Administration	20
Department of Justice	9
NASA	5
Others	15
<b>Total</b>	<b>65</b>

By partnering with DESC to procure direct supply natural gas, civilian agencies saved over \$6.5 million in FY01.



## Natural Gas Contracts



- 100% Competitive - Maximize Cost Avoidance
- 100% Commercial Item
- 100% Focused on the Customer
  - Tailored Logistics Support
    - Direct Vendor Delivery - Close to the Meter as Practicable
      - Burner Tip
      - City Gate
      - Into Pipeline
  - Built in Readiness and Flexibility
    - Firm Delivery
    - Interruptible Delivery
    - Limited Interruptible Delivery



## Natural Gas Contracts (cont'd)



- Market Driven
  - Aggregate by Market Area (Interstate Pipeline)
  - Contract Terms
    - Monthly
    - Annual
    - Multi-year
  - Pricing – Primarily Fixed Price With EPA
    - Supply “Indexed” to Market Indicators
    - Escalated Monthly
    - Firm Fixed Price Conversions
- Requirements-type Contracts



## Natural Gas Challenges



- Updating process as market evolves
- Determining customer's risk profile
  - tolerance for market price risk and price volatility
- Managing price volatility
  - Finding optimal balance between monthly index pricing and firm fixed prices
  - Implementing risk mitigation strategy that meets customer needs
  - 2001 was the most volatile in history with respect to natural gas prices



## Natural Gas Contracting Officer POC's



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## Natural Gas and Electricity Similarities



### INDUSTRY STRUCTURE

### REGULATORS

### MAJOR UTILITIES

### MAJOR MARKETERS

### AFTER DEREGULATION

### INCLUDE ANCILLIARY SERVICES?

### TYPE OF PROCUREMENT

### SMALL AND SMALL DISADV. BUSINESS ISSUES

### MARKET and PRICING ISSUES

### GAS

Production (deregulated)  
Transmission (regulated)  
Distribution (regulated)

FERC  
State PUCs

Many are the same

Many are the same

Commodity

Yes, to meter

Commercial Item  
(FAR Part 12)

Same

Same



### ELECTRICITY

Production (deregulated)  
Transmission (regulated)  
Distribution (regulated)

FERC  
State PUCs

Many are the same

Many are the same

Commodity

Yes, to meter

Commercial Item  
(FAR Part 12)

Same

Same





## Competitive Electricity Procurement Program



Cost Avoidance				
	FY99	FY00	FY01	TOTAL
CA	\$722K	\$1,346K	\$2,566K	\$4,634K
PJM*	\$165K	\$1,066K	\$525K	\$1,756K
ME		\$6K	\$229K	\$235K
TOTAL	\$887K	\$2,418K	\$3,320K	\$6,625K

\*PJM – Represents awards in PA, NJ, MD, DE, DC

In addition to the above awards, RFP's have been issued in NY, DE, IL, RI, CT. Under these procurements, the incumbent utility was determined to be the "best value."

### Customers\*\*

Army	24
Navy/	
Marine Corp	114
Air Force	12
Army Res.	261
ANG	3
Other DoD	4
Fed Civ.	24
Coast Guard	7
TOTAL	449

\*\* Customers = activities submitting requirements under electricity RFPs



## Electricity Contracts



- Objective: select best value (3<sup>rd</sup> party or utility)
- 100% Competitive
- 100% Commercial Item
- 100% Focused on the Customer
- Market Driven
  - Aggregate by Power Pool/ISO/RTO
  - Contract Performance Periods Vary due to:
    - Market Conditions
    - Customer Preferences
    - Availability of "Default Rates"
    - Anticipated Regulatory Changes
  - Pricing Structure Varies due to:
    - Market Structure
    - Type of Default Rate in Place
    - Customer Risk Profile



## Electricity Challenges



- Keeping current on market and restructuring status
- Analyzing and understanding the “rules” and default rates
- Buying in a manner as close to commercial practice as practicable
- Determining customer's risk profile
- Managing price volatility
- Contract Administration (when things do not work right)



## Electricity Contracting Officer POC's



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